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NAVAL WAR COLLEGE  
Newport, Rhode Island

ROLE OF THE UNITED STATES MILITARY  
IN PANAMA BEYOND 2000 A.D.

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by

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A paper submitted to the Faculty of the Naval War College in partial satisfaction of the requirements of the Department of Operations.

The contents of this paper reflect my own personal views and are not necessarily endorsed by the Naval War College or the Department of the Navy.

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# ROLE OF THE UNITED STATES MILITARY IN PANAMA BEYOND 2000 A.D.

## CHAPTER I

### INTRODUCTION

The Problem. At twelve noon 31 December 1999, the Panama Canal and all associated property will be turned over to the Republic of Panama in accordance with the Panama Canal Treaty of 1977. For the Panamanians, this point will mark an end to a nearly century-long struggle to unify their territorial lands under Panamanian ownership.

Due to the acquisition of Spanish territory in the Pacific, America's interest in Panama began with a desire for a transoceanic canal in 1826. In 1903, America's military was instrumental in securing Panama's independence from Colombia. Immediately following Panama's independence, Secretary of State Hay and Phillippe Bunau-Varilla negotiated a treaty that granted the United States "in perpetuity the use, occupation and control" of a ten mile wide zone of land across the isthmus for construction, operation and defense of ship canal as well as "all rights, power and authority within the zone . . . which the United States would possess and exercise as if it were the sovereign of the territory."<sup>1</sup> Through these provisions, America guaranteed the independence of Panama and received in return the right to intervene in Panama's domestic affairs.<sup>2</sup> This treaty made Panama a de facto protectorate of the United States and served as a major irritant between the two nations.

Following the 1964 Canal Zone student riots, successive U.S. administrations have been concerned with maintaining U.S. interests in Panama. They realized that it would not be feasible to defend the Canal if the government of Panama did not cooperate.<sup>3</sup> This led to a series of negotiations which culminated in the Carter-Torrijos Agreements of 1977. During the treaty negotiation phase, Panama's leader, General Omar Torrijos, concurred with President Jimmy Carter on the importance of moving towards a more stable democratic government in Panama to ensure United States Senate ratification and the Canal's future security. However, since the signing of the treaties, Panama has undergone some dramatic changes in its government. The death of General Torrijos, the floundering of his successors and the rise of General Manuel Noriega increased the tension between the two countries. U.S. interests were threatened by General Noriega's association with narcotic trafficking, corruption, and human rights violations. His failure to permit the legitimately elected Endara government to take power in November 1989 led to Operation Just Cause. Even with the successful installation of a pro-American democratic government, the road to economic and political stability in Panama is a formidable task and remains a concern for the United States.

The Panama Canal Treaty requires the removal of all military personnel, equipment and bases by noon 31 December 1999 and leaves the primary responsibility for the Canal's security with the Republic of Panama. However, it was the American military which installed the Endara government in Panama in December 1989 and which put down a coup attempt one year later. Will a stable pro-American Panamanian government capable of defending the Canal be in place prior to the termination of the Panama

Canal Treaty? The questions remain how to protect U.S. interests beyond the year 2000 and what interests in Panama are worth protecting?

Assumptions. In order to answer these questions, it is necessary to make some basic assumptions regarding the potential for Panamanian stability and the possibility of third party intervention.

It is unlikely that President Endara or his 1994 successor will be able to rectify by the year 2000 the multitude of domestic problems now facing the government of Panama (see Chapter V). He has been unable to obtain the full release of U.S. 1990 aid due to Washington's requirement that Panama change the bank secrecy laws so that American law officials can pursue drug money launderers and tax evaders.<sup>4</sup> He has reversed the recent trend of a shrinking gross domestic product (GDP) but not at a rate sufficient enough to curb unemployment/underemployment. The likelihood that these trends will be reversed sufficiently to ensure a stable nation and a secure canal by the year 2000 is remote.

With regards to third party intervention, it is unlikely that Cuba, China, the U.S.S.R. or Libya would be able or willing to expand their influence into Panama in the 1990s. Castro's position in Cuba is tenuous. Although beyond the scope of this paper, it is postulated that the communist experiment in Cuba will fail or at least evolve into something that will permit the eventual reconciliation with the United States. China has never demonstrated an interest in Panamanian affairs. The Soviet Union's continuing struggle with economic, political and ideological reforms will inhibit expansion. Finally, Libya's Muammar al-Qaddafi, appears less inclined to expand his activities to support subversion.

Overview. Before examining America's military role in Panama, following the turn of the century, this paper will (1) review America's role in the Panama Canal, (2) analyze the impact of the 1977 treaties, (3) address the strategic value of the Canal and argue that its importance will increase, (4) analyze Panama's domestic difficulties and (5) highlight current administration policies. This paper will not develop a comprehensive strategy for protecting American interests in Panama, but assumes those interests will press for a military presence in Panama beyond the year 2000 to support the growth of Panama's democracy, ensure the Canal's defense, enhance drug interdiction efforts and promote regional stability.



## CHAPTER II

### PANAMANIAN/AMERICAN RELATIONS: A HISTORICAL PERSPECTIVE

(1826 - 1977)

The Need for a Canal. Expansionism, stirred by the acquisition of Florida and rights to the Pacific Coast of North America obtained from Spain in 1819, initiated America's interest in a trans-isthmian canal. In 1826 and responding to American businessmen, Secretary of State Henry Clay proclaimed America's need for a Central American canal.

The groundwork for a U.S. presence on the isthmus was laid by the United States-Colombian Bidlack Treaty of 1846 which provided that U.S. citizens and their commodities should freely cross Panama and that the United States would guarantee the neutrality required for the uninterrupted transit across the isthmus.<sup>1</sup> This was followed by the discovery of gold in California in 1848 which led to the construction of the continent's first transcontinental railroad in Panama which was completed by 1855.

In 1878, Ferdinand de Lesseps, builder of the Suez Canal, obtained the rights from Colombia for his French Company to build a canal across the isthmus. The American administration did not like the idea of a French dominated canal in Central America. In 1880, President Hayes declared that "the policy of this country is a canal under American control."<sup>2</sup> Ferdinand de Lesseps' attempt to build a sea-level canal ended in failure costing the French \$287,000,000 and 22,000 lives.<sup>3</sup>

The writings of Captain Alfred Thayer Mahan coupled military considerations with economic rationale for a canal. In his article "The Isthmus and Sea Power," Mahan argued that the Canal would "enable the

Atlantic Coast to compete with Europe, on equal terms as to distance, for the markets of Asia."<sup>4</sup> He also correctly argued that the Canal would be essential for the deployment of the fleet.

Following the 1898 Spanish-American War, the nation's canal interest expanded. Acquiring significant Pacific interest from the Spaniards, including the Philippines, Guam and Hawaii, President McKinley declared that an American controlled isthmus canal was "indispensible."<sup>5</sup> After the 1901 Hay-Pauncefote Treaty relinquished Great Britain's right to a Central American canal, Congress authorized the President, through the Spooner Act, to obtain territory for the construction of a canal in Panama. In 1903 the United States and Colombia signed the Hay-Herran Treaty which authorized the French to sell the Canal rights to the U.S., granted rights to the U.S. for the next hundred years, preserved Colombian sovereignty over the Zone and obligated the U.S. to pay Colombia \$10,000,000 plus \$250,000 per year.<sup>6</sup> In March 1903, the U.S. Senate ratified the treaty, but the Colombia Congress rejected it five months later. With American military support, the Panamanians declared their independence 3 November 1903 and, fifteen days later, signed the Hay-Bunau Varilla Treaty giving the United States "exclusive jurisdictional rights in perpetuity"<sup>7</sup> over the Canal Zone.

A Frenchman, Phillippe Bunau-Varilla was a former chief engineer for de Lesseps and a stockholder in the French Company's failed attempt. He was a "soldier of the Idea of the Canal"<sup>8</sup> who lobbied Washington politicians and American businessmen to purchase the French Company's Canal rights. He was able to enact treaty agreements as Panama's Washington Minister because he helped finance Panama's revolution--\$100,000 to buy the allegiance of the five hundred Colombian troops

stationed in Panama.<sup>9</sup> No Panamanians were present when the treaty was drawn up. The Panamanian delegation led by President Manuel Amador arrived hours after the treaty's signing and was presented with a fait accompli. For forty million dollars, the U.S. acquired the rights to the Canal from the French and completed construction with the steamship Ancon passing through the Canal on 15 August 1914. The Americans built a lock-canal at a cost of \$352,000,000 and 5609 lives.<sup>10</sup>

Treaty Revision. The Panamanians were indebted to the United States for their independence; however, discontent over the fairness of the Hay-Bunau Varilla Treaty emerged, and by 1929 Panama was seeking a new treaty. There was discontent over Canal sovereignty, inequitable annuity payments, unfair treatment of non-U.S. workers in the Canal Zone and intervention of the United States in Panama's domestic affairs. Minor revisions to this treaty occurred in 1936 and 1955 which, among other things, increased annuity payments, returned some land to Panama, renounced America's right to intervene in Panama to maintain public order and addressed the wages/privileges of the Zone employees.<sup>11</sup> The basic issue of sovereignty, however, remained. In January 1964, student efforts to raise the Panamanian flag at a high school inside the Zone led to riots killing twenty Panamanians and four Americans plus injuring five hundred.<sup>12</sup> The flag raising had been agreed to but American Zonian employees refused. The riots led to a break in diplomatic relations and a charge of United States aggression in both the United Nations and Organization of American States.<sup>13</sup> Diplomatic relations were reestablished when President Johnson agreed to begin negotiations on a new treaty. Serious progress towards a new agreement did not occur

until President Richard Nixon's Secretary of State Henry Kissinger and Panamanian Foreign Minister Tack signed a "Statement of Principles" in February 1974, which outlined the basis for future negotiations. These included the phased termination of U.S. jurisdiction in the Zone, increased Panama's share of the Canal's economic benefits and increased Panama's participation in the operation and defense of the Canal.<sup>14</sup> This process resulted in the September 1977 signing of The Panama Canal Treaty and The Treaty Concerning the Permanent Neutrality and Operation of the Panama Canal which were ratified by the U.S. Senate in March and April 1978 respectively.

The development and ratification of a suitable treaty was not an easy process. Polls in mid-August 1977 showed that 78% of the North Americans interviewed did not want to give up the Canal.<sup>15</sup> Former military strategists argued that the taxpayers would have to pay for an increased Navy to meet a two ocean commitment. Other people argued that abandoning the Canal would cause a domino effect in Central America and would "encourage penny-dictators and minor aggressions everywhere."<sup>16</sup> Additionally multiple lobby groups--Zonians, Liberty Lobby, American Legion, Canal Zone Non-Profit Public Information Corporation, to name a few--campaigned hard to stop the surrender of the Panama Canal. The Carter Administration, meanwhile, fought back by courting elitist groups and holding many White House breakfast meetings with key community leaders. In order to clarify the key issues of "neutrality" and the "right of intervention" the Senate attached amendments to the treaties which enabled both treaties to finally achieve ratification.

## CHAPTER III

### ANALYSIS OF THE CARTER-TORRIJOS CANAL TREATIES

The Panama Canal Treaty. The Panama Canal Treaty consisted of fourteen articles. Synoptically the treaty with modifications provided for the following:

1. Recognized Panama's sovereignty over entire area.
2. Granted the U.S., through 31 December 1999, the rights necessary to regulate the transit of ships through the Panama Canal, and to manage, operate, maintain, improve, protect and defend the Canal.
3. Required the increased participation of Panama in the Canal's management and defense although the U.S. retained primary responsibility.
4. Terminated the new treaty including any U.S. military presence by noon 31 December 1999.
5. Established the Panama Canal Commission to carry out the regulation, administration and operation of the Canal.
6. Stated that any action the U.S. took to keep the Canal open could not be used to intervene internally in Panama.
7. Transferred to the Republic of Panama over 83 million dollars in buildings and property including the Panama Railroad and increased Panama's yearly Canal revenues to approximately 70 million dollars.

Most importantly this treaty provided for an orderly transfer of the Canal to Panama, resolved the issue of sovereignty and established a more equitable treatment of non-U.S. Zonians. It also protected American interests. For example, the Panama Canal Commission is a nine-member United States governmental agency responsible for the Canal's operation. Until 1989, the United States held majority membership, five, and possessed the power to appoint the four Panamanians from a list submitted by the Republic's government. Torrijos had bitterly fought this procedure before acquiescing to Washington's demands.<sup>2</sup> In general, this treaty eased the friction that had existed between the two nations since the Hay-Bunau Varilla Treaty.

The Treaty Concerning the Permanent Neutrality and Operation of the Panama Canal. This treaty is more commonly referred to as the Neutrality Treaty. This agreement consists of eight articles and a rather lengthy list of U.S. Senate amendments, conditions, reservations and understandings. A summary of the treaty's major points follows:

1. The Panama Canal is an international permanently neutral waterway.
2. The right to the peaceful transit of all vessels regardless of nationality without discrimination.
3. The United States and Panama will maintain the Canal's neutrality.
4. After termination of the Panama Canal Treaty, only the Republic of Panama shall operate the Canal and maintain military forces, defense sites and military installations within Panama.
5. The expeditious transit of all U.S. vessels of war and auxiliaries.<sup>3</sup>

Despite numerous additions, the treaty received Senate approval by only one vote. The most strongly contested issues were the dual nation responsibility for Canal neutrality and the right of expeditious transit. The Senate was concerned over the limits of U.S. intervention in order to ensure the Canal's neutrality and the definition of expeditious transit. Eventually a compromise was worked out and the treaty modified to ensure that U.S. intervention did not interfere with the internal affairs of Panama, that nothing in the treaty precluded follow-on arrangements to maintain the Canal's neutrality (including stationing of U.S. troops or establishing necessary defense sites) and that expeditious transit included head of the line privileges.<sup>4</sup> With these major issues resolved, the Neutrality Treaty finally gained U.S. Senate ratification.

## CHAPTER IV

### THE PANAMA CANAL

Strategic Value. Historically, the U.S. military ensured the unimpeded transit of military and commercial ships. The Canal has played a key role in America's military and economic growth as a superpower. With the U.S. military out of Panama by the year 2000 and doubts regarding the ability of a restructured Panamanian security force to provide for the Canal's defense (see Chapter V), two questions remain: (1) How strategically important is the Panama Canal, and (2) What threatens its safe and continuous operation.

Unlike the one ocean American Navy of the early twentieth century, the Canal does not initially appear to be as important today. America's modern aircraft carriers cannot fit through the Canal. The number of U.S. warships transiting the Canal is down to approximately one hundred vessels a year;<sup>1</sup> however, during the Vietnam War, over 1500 warships transited the Canal yearly.<sup>2</sup> The Canal shortens the transfer of U.S. warships between the Atlantic and the Pacific. In 1983, the U.S.S. New Jersey (BB-62) cut twenty days off her transit time in responding to an Eastern Mediterranean crisis off Beirut.<sup>3</sup> As the United States Navy responds to budget driven force reductions, the Panama Canal's strategic importance, will increase as America's "Two Ocean Navy" shares/consolidates forces to meet real world contingencies/crises.

Commercially the Canal is still important. During the last several years, Canal traffic has been well below the early eighties levels (see Table I). This slump in traffic has been effected by several factors. The Canal is too small for supertankers and many bulk cargo carriers.

TABLE I

## PANAMA CANAL TRAFFIC

YEAR	NUMBER OF TRANSITS	LONG TONS OF CARGO <sup>a</sup>
1980	14725	167,612,203
1981	15050	171,524,895
1982	15271	185,738,781
1983	12954	145,948,818
1984	12523	140,801,136
1985	12766	138,903,258
1986	13278	140,125,818
1987	13444	148,899,425
1988	13441	156,780,203
1989	13389	151,868,548

<sup>a</sup>Canal tolls/charges are determined by long tons

Source: Panama Canal Commission, Panama Canal Commission Annual Report: 1989, (Washington: 1989), p. 51.

The Canal is in competition with the U.S. and Mexican land bridges using standard cargo containers<sup>4</sup> and there has been a decrease in oil shipments due to the oil pipelines across Panama.<sup>5</sup> Nevertheless, 93% of the world's ships can fit through the Canal.<sup>6</sup> Although only ten percent of the U.S. trade uses the Canal,<sup>7</sup> the Canal is critical to the economies of Ecuador, Chile and Peru which count on it for more than 40% of their trade.<sup>8</sup> With nearly two thirds of all Latin Americans living in poverty, the Canal's neutrality may contribute in addressing the economic problems and its associated domestic unrest in Panama and several South American nations. It may be critical in the growth of emerging democracies and help in the development of an expanding market for American foreign trade.



In conclusion, the security of the Panama Canal is important to U.S. regional interests and will grow rather than diminish as the year 2000 approaches, not so much for the military or economic significance to the United States but because of its economic importance to Latin American nations and the political and regional stability it supports. This increased stability can then be used to establish a cooperative effort with key Latin American nations to pursue other interests.

Threat Assessment. The primary U.S. interest in the Panama Canal has been to maintain an accessible, secure and efficiently operated waterway.<sup>9</sup> In practice this has been accomplished by the stationing of North American troops in a Canal administered and operated by North Americans. In accordance with the Neutrality Treaty, U.S. bases for the stationing of troops in Panama is forbidden, however, it does acknowledge the dual U.S.-Panamanian responsibility for maintaining the neutrality of the Canal's waterways. Accordingly, the protection of the Canal depends on how well the joint U.S.-Panamanian defense forces train and work together.<sup>10</sup> But Panama's recently formed democratic government is trying to restructure Panama's security forces and is considering constitutionally banning the military.<sup>11</sup> Without a defense force, Panama's ability to provide trained personnel for the Canal's defense is thus in question. Therefore, before determining the security force requirements to maintain the Canal's neutrality, it is necessary to analyze what threatens its safe and continuous operation.

There are three categories of threats to the Canal: natural, internal and external. Landslides and the uncontrolled growth of aquatic

weeds are nature's biggest threat and are not pertinent in determining military security force requirements.

Internal threats can take two forms: (1) a strike by the Canal pilots or (2) civil strife. Panama has little experience with democracy. The government's ability to restructure Panama's military, resolve the economic problems of wealth distribution, resuscitate a sluggish economy, lower unemployment and improve product competitiveness plus curb corruption (see Chapter V) will mean the difference between internal harmony or unrest. Additionally in the 1980's internal turmoil and decaying opportunities led to a migration of almost ten percent of Panama's inhabitants to other nations, principally the United States. This resulted in a loss of talented people to Panama's economy.

Historically Panama's problems of internal instability have had little direct impact on the operation of the Canal. Prior to the 1977 treaties, internal strife took the form of nationalistic inspired riots to regain Panamanian sovereignty over the Canal. Afterwards, domestic unrest was reflected in a growth of the military's control of the government and the rise to power of the dictator Manuel Noriega. Even the U.S. installation of Guillermo Endara as President caused only a temporary halt in the traffic flow through the Canal. Past domestic problems have not jeopardized the Canal's neutrality, because the Canal has been a source of nationalistic pride. However, the Canal's neutrality cannot be guaranteed to be immune from the influence of civil unrest and its associated political struggle.

Finally the external factors of drug trafficking, neighboring nation's economic decline and regional insurgencies threaten regional stability. Panama, which was once just a transshipment point for drugs,

has now, due to the American drug interdiction effort, become a consumer market for those narcotics which the traffickers cannot transport to the United States.<sup>12</sup> This will increase the potential of narco-terrorism and threaten Panama's fragile democracy. According to the United Nations' Economic Commission for Latin America and the Caribbean, nearly 65% of Central America's population should be classified as poor, 42% critically poor and 52% of the children are malnourished.<sup>13</sup> This will add to the potential for civil unrest and political instability and give rise to possible insurgencies, which due to this region's chronic historical tendency for conflict spillover (e.g. the Sandinistas/Contras use of Costa Rica/Honduras during their struggle for Nicaragua) may impact Panama and the Canal.

## CHAPTER V

### ANALYSIS OF PANAMANIAN STABILITY

National Appraisal. The analysis of Panamanian stability is divided into four areas: political, economic, socio-psychological and the military. This analysis is essential in order to understand the nature of Panama's fragile stability, its impact on U.S. interests and in evaluating Washington's current policies and in assessing options beyond the year 2000.

Political. Prior to the 1968 military coup of then Colonel Omar Torrijos, Panama's government was a traditional aristocratic oligarchy. According to Richard Millet, Professor of History at Southern Illinois University, Panamanian politics was "characterized by personalism, the tendency to give one's political loyalties to an individual, rather than to a party or particular ideological platform."<sup>1</sup> They maintained their control by manipulating nationalist sentiment against the U.S. control of the Canal, the National Guard and the rival political parties.<sup>2</sup>

The Torrijos coup of 1968 brought the country under military control which lasted until Noriega's ouster 20 December 1989. Torrijos sought to add lower and middle class support to his military power base in order to strengthen his position.<sup>3</sup> In 1972 Torrijos firmly consolidated his rule by revising the country's Constitution which designated himself as Maximum Leader of the Panamanian Revolution. After signing the Panama Canal and Neutrality Treaties, Torrijos started the process of restoring civilian rule. He amended the Constitution, established his own

political party--The Democratic Revolutionary Party (PRD)--and appointed a new civilian President, Aristides Royo.<sup>4</sup>

Following the airplane crash and death of General Torrijos in 1981, instability in Panamanian politics and in the leadership of the National Guard opened the way for Noriega's rise to power. In December 1982, Colonel Noriega emerged as the National Guard's Chief of Staff. In September 1983 General Paredes, Commander of the National Guard, resigned his position in order to run as the PRD's presidential candidate for the 1984 elections. This elevated Noriega to command of the National Guard. Noriega then forced Paredes to withdraw and installed his own choice, Ardito Barletta, as the PRD's top candidate. The election was marred by violence, fraud and intimidation<sup>5</sup> and resulted in Barletta winning by a scant one thousand votes. Rumors of coups, protests over the deteriorating economic conditions, the decapitation of Noriega's prominent critic, Dr. Hugo Spadafora, nationwide strikes and Noriega's association with drug trafficking contributed to local discontent and deteriorating relations with the United States. With Noriega's invalidation of the November 1989 elections, which saw his candidate lose 75% of the vote to Guillermo Endara, President Bush exercised his military option and launched Operation Just Cause which deposed the Noriega regime.

Since 20 December 1989, President Endara has attempted to establish his own legitimacy; establish democracy; continue the Canal transfer process; install legal order to guarantee peace, security and human rights; restructure the military under civilian control; initiate economic reconstruction and eliminate drug trafficking/money laundering in pursuit of new civic and moral values.<sup>6</sup> These will not be easy tasks

as evidenced by U.S. suppression of a failed December 1990 coup by Colonel Eduardo Herrera Hassan. This presents the U.S. with the possibility for continued instability in Panama which could impact on the Canal's operation eventually impacting regional stability.

Economic. In 1985 a World Bank study concluded that unemployment was Panama's gravest economic and social problem which stood at 11.8%.<sup>7</sup> Now it is over 30%.<sup>8</sup> In addition to unemployment, underemployment, wealth distribution, a declining economy and a staggering national debt plague Panama.

Forty percent of Panama's population is below the age of fifteen,<sup>9</sup> and according to economy analysts, Panama's GDP must grow indefinitely at a seven-and-one-half percent rate in order to absorb the new entrants into the labor market.<sup>10</sup> Unfortunately Panama's GDP fell 20% during 1988 and 1989.<sup>11</sup> However, under President Endara, Panama's GDP rose five percent in 1990.<sup>12</sup> Additionally, despite Panama having one of the highest per capital income levels in the developing world, her wealth distribution is highly skewed as 44% of all Panamanians live in extreme poverty (which is defined as an income of under \$200/year).<sup>13</sup>

As Panama is basically a service-oriented economy (73% of the GDP comes from the Panama Canal, the Colon Free Zone, the trans-isthmian oil pipeline and the International Finance Center),<sup>14</sup> migration has been affected by the cyclical nature of international trade. For example, during the Great Depression, Panama experienced a drop in the service oriented economy and a population shift from urban to rural while the exact opposite occurred during World War II.

In an attempt to restore financial stability, Panama's present administration has outlined a new economic strategy which financially reorganizes the public sector, pays back the national debt, deregulates the labor market, removes industrial protectionism, minimizes state interference in the market, lowers the high cost of construction, increases job opportunities and stimulates investment and growth.<sup>15</sup> However, some of these initiatives are contingent on the release of the last 20% of U.S. Congressionally approved non-military aid. These funds were being withheld pending Panama's adjustment of its banking secrecy laws. In April 1991, Panamanian officials agreed to permit Washington to investigate Panamanian bank records of suspected drug-money launderers clearing the final obstacle to the release of this essential aid.<sup>16</sup>

Although the economic picture appears grim, Panama does have one advantage unique from her Latin American neighbors. Panama's currency is the U.S. dollar, and as such, her money supply is determined by America's Federal Reserve. This provides Panama with two advantages: (1) Panama avoids the cycle of exchange rate devaluation and (2) she has the lowest annual rate of inflation in Latin America.<sup>17</sup>

In summary, Panama's economic challenges are great, and its future stability is unpredictable. The ability of Panama's leadership to meet the economic needs of its citizens will help determine Panama's future.

Socio-psychological. Panama is a nation of approximately two and a half million people with an annual growth rate of just over two percent. It has a better than average life expectancy rate of 71 years and a good literacy rate of 87%.<sup>18</sup> Panamanian society consists of three major ethnic groups: the Catholic Spanish speaking Mestizos, the Protestant

English speaking Antillean Blacks (eight percent of the population) and the Tribal Indians (approximately five percent). The Panamanians recognize racial and ethnic distinctions and consider them social realities of considerable importance.<sup>19</sup>

Family and kin also play a central role in society. Loyalty to one's kin is an ingrained value, and it is not uncommon for a man to give priority to his parents or siblings before his spouse.<sup>20</sup>

The opening of the trans-isthmian railroad and the Panama Canal reinforced the distinctions basic to Panamanian society. Dichotomies exist between rural/urban dwellers, small-scale agriculturalist/large cattle ranchers, the landless/land owners and the mestizos/caucasians.<sup>21</sup>

Additionally, corruption is another trend that marks Panamanian society. Tied to this corruption is the laundering of money which is used by narcotic traffickers and U.S. tax evaders.

These trends will make it difficult for President Endara to establish a viable government and establish a new civic and moral standard.

Military. Panama's military ruled for twenty-one years without civilian control. On 29 September 1983, with Noriega as Commander of the National Guard, a new law--Law 20--created the Panamanian Defense Force (PDF) as a successor to the National Guard. This law militarized Panamanian national life, converted the nation into a police state, made members of the armed forces privileged citizens and gave Noriega totalitarian power."<sup>22</sup> Over the years the PDF became its own law and was accustomed to nearly complete autonomy. No outsider could review its



budget, tour its headquarters, inspect its training techniques or review its arms purchases."<sup>23</sup>

Having the military at the forefront brought economic disaster to Panama. In the early seventies under Torrijos, the state took a more active role in the economy by initiating several ambitious social projects and tried to expand the public sector which drove up the fiscal and external debt by an unprecedented degree. Prior to Torrijos, Panama's GDP increased an average eight percent/year. During Torrijos' regime, the GDP increased only 3.4% yearly due to labor protection laws, housing controls and subsidies.<sup>24</sup> In order to readdress these excesses, Panama's government instituted a severe austerity program which by 1984 produced a decline in Panama's GDP from the 1983 level.<sup>25</sup> U.S. displeasure with Noriega led to U.S. economic sanctions in 1987 further complicating Panama's problems.

President Endara has tried to restructure the old PDF into a new police force. In January 1990, he placed his First Vice President, Richard Calderon, in charge of this restructuring effort. In order to make the PDF a public force under civilian control, seventeen of nineteen senior PDF officials were ousted, the force's top commander was limited to a single two year term, retirement was made mandatory after twenty-five years, and the National Department of Investigation--the old PDF secret police--was renamed and placed under the control of the Justice Ministry. It was the U.S. military, however, not the new Panamanian Public Force that suppressed the December 1990 coup attempt, casting further doubt on the new government's military reform efforts. Additionally, the April 1991 stripping of Vice President Calderon's military restructuring responsibilities and consideration of a

constitutional ban on any military raises doubt as to Panama's ability to fulfill her Neutrality Treaty requirement to defend the Canal.

## CHAPTER VI

### CURRENT U.S. POLICIES

Since the ouster of Manuel Noriega, the United States has lifted economic sanctions, appropriated aid, continued the Canal transition process, reduced American troop strength and assisted in the restructuring of the Panamanian military. The Endara government faces a monumental task and clearly it is in the United States' interest to be responsive to the government of Panama's requests for assistance in the formation of a professional, reliable, apolitical Panamanian public force, responsive to civilian control.<sup>1</sup>

Currently military assistance is limited to Operation Promote Liberty's civic and humanitarian projects, i.e. road and school construction.<sup>2</sup> President Endara's government does not desire to reconstitute the military in order to reduce the threat of additional coups. As requested by the Panamanian government, the U.S. has replaced its embassy's Defense Attache Officer with a non-military Defense Representative. America's Justice Department has been allocated twelve million dollars to assist with Panamanian police reforms<sup>3</sup> while the U.S. military has been relegated to a supporting role.

U.S. non-military assistance is quite extensive. In February 1990, Congress approved a \$41 million Emergency Assistance Package for Panama including low-income housing investment guarantees.<sup>4</sup> Three months later Congress approved an additional \$420 million. This \$461 million in direct grant assistance and housing credit makes Panama the third largest recipient of U.S. economic assistance, next to Israel and Egypt, and exceeds the entire amount of assistance provided by predecessor agencies

to Panama over the thirty-eight year period from 1949 until the cessation of aid in 1987.<sup>5</sup> The funds being used to stimulate and support economic reforms, rebuild the public sector infrastructure, transitional training for the police force, strengthen the administration of justice, rehouse residents made homeless by Just Cause, support Panamanian efforts to establish a Coast Guard to assist in counter narcotics activities and help restore Panama's international credit standing by helping to clear accumulated arrears with international financial institutions (IFI).<sup>6</sup> A more detailed breakdown of U.S. assistance is outlined in Table II.

All but \$84 million of the May 1990 supplemental assistance package has been allocated so far.<sup>7</sup> Additional aid has been authorized to help Panama cope with the recent devastation caused by the April 1991 earthquake. Further funds were requested for fiscal year 1991 as the fiscal year 1990 package will be used to promote sustained economic recovery and to strengthen the administration of justice. For fiscal year 1992, an additional seventeen million dollars in Developmental Assistance and ten million dollars in Economic Support Funds has been requested to help protect Panama's fragile natural resource base, continue scholarships, improve public administration and the judicial system, support police development, strengthen the democratic government and diversify the economy.<sup>8</sup>

U.S. economic assistance is sufficient to help place Panama on the road to recovery. Washington's insistence on tying aid to a change in the banking secrecy laws is in keeping with the U.S. policy of dealing from a position of dominance with her Latin American neighbors vice one of cooperation.

TABLE II

## U.S. ECONOMIC ASSISTANCE TO PANAMA

CATEGORY	SPECIFIC <sup>a</sup> ALLOCATION	SUBTOTAL <sup>a</sup>
Emergency Needs Assistance		48.8
- Food, Shelter and Replacement Housing	32.3	
- Emergency Employment Program	7.0	
- Small Business Credit Fund	5.0	
- Emergency Public Sector Support	4.5	
Immediate Economic Recovery Assistance		352.0
- Normalization of Relations with IFI's	130.0	
- Public Investment	114.0	
- Private Sector Reactivation Credit	108.0	
Development Assistance		53.9
- Administration and Policy Improvement	17.6	
- Support for Democratic Institutions	2.0	
- Human Resources Development	20.7	
- Protection of Canal Watershed	10.1	
- Export and Investment Promotion	3.5	
Program Design, Administration, Evaluation and Audit		6.7
GRAND TOTAL		461.4

<sup>a</sup>Values in millions of dollars

Source: Thomas W. Stukel, "Presentation to Asociacion Panamæna de Ejecutivos de Empresa," Director U.S.A.I.D., Panama, 14 November 1990.

## CHAPTER VII

### U.S. MILITARY'S ROLE IN PANAMANIAN STABILITY BEYOND THE YEAR 2000

This brings us to the purpose of this academic analysis--to postulate the United States military's role in guaranteeing Panamanian stability beyond the year 2000. Will the U.S. military be required to support a weak democratic government and ensure the Canal's defense? If another Noriega-like strongman seizes power, how much more difficult/costly would his ouster become without a U.S. military infrastructure in country? What impact will the U.S. military withdraw have on a struggling Panamanian economy? Will the absence of the United States Southern Command diminish regional stability? Despite gains for democracy in Panama and the region, the prognosis for economic and political stability is uncertain. Latin America remains burdened by debt, uneven growth and internal violence generated by economic dislocation and this state is likely to worsen. The seeds for instability in the region exist. Arms proliferation to protect national interests is growing. The support of insurgencies, such as the Maoist Shining path in Peru, continues. The cultivation of the illegal drug trade persists. Narco-terrorism may become common as we head into the twenty-first century. These are some of the considerations that will govern future U.S.-Panamanian relations and shape Washington's strategy as both nations head into the next century. Although America's national strategy is beyond the scope of this paper, a recommendation for the role that America's military will play will be proposed.

Traditional U.S. interests in Panama include counternarcotics, democratic growth, humanitarian rights and a neutral Canal waterway. The

U.S. military will continue to be involved through humanitarian/disaster assistance, nation building and supporting Panamanian counternarcotic efforts.

Humanitarian and disaster relief is one of our most popular forms of military assistance. Currently it is helping to alleviate the additional economic stress caused by the April 1991 earthquake. In the future, this type of aid will help Panama's government continue its economic reconstruction by offsetting the burden caused by unpredictable disasters. But this aid does not address the problems of population growth and low productivity.

With the final release of American appropriated aid (see Chapter V), Panama's economy will get the necessary assistance to help continue its economic recovery. Nevertheless, the Panamanian government will have to turn to the American military's nation building capabilities in order to continue her democratic development and develop an effective public security force under tight civilian control.

Panama has a treaty commitment to assist in the Canal's defense. While the Endara government struggles with its refocusing of the Public Force, it must eventually use this force to tackle the country's growing narcotic problem and provide some form of Canal defense. The U.S. military in liaison with other agencies will be required to conduct this essential training. Additionally the U.S. military must promote civic action programs that would develop the servant image of the Public Force. U.S. military psychological operations can help improve the Panamanian government's legitimacy and enhance the democratic process. U.S. military engineers must continue to develop Panama's infrastructure particularly in road construction and community development.

Finally, America needs to help improve Panama's counternarcotic effort. While President Endara has already stated his unwillingness to negotiate for a continued U.S. military presence in Panama beyond 31 December 1991, the continued access to key facilities at the Howard Air Force Base and the Rodman Naval Station would be beneficial to this effort.

Narcotics is not just a North American problem; it threatens the health, welfare and morality of the world. Panama has recognized its dangers and has pledged its support to counter the drug problem. Panama is beginning to develop a Coast Guard whose mission, among others, will be involved in drug interdiction. The U.S. Department of Defense, as the executive agency for counternarcotics, must use the U.S. Coast Guard and the Drug Enforcement Agency to help Panama develop this capability. Once established, this capability should be combined with the U.S. Navy's at sea interdiction efforts. Additionally, U.S. military intelligence must be shared with the Panamanians to strengthen their counternarcotic program.

To sustain the U.S. military drug interdiction effort, America must negotiate for access to the aforementioned military bases beyond the year 2000. While the U.S. military continues to downsize, Washington's interests have not decreased. During peacetime, while the U.S. Navy may be able to reduce or gap its overseas presence, it is unlikely that her commitment to drug interdiction will decrease. Therefore, in order to limit Optempo and flight hours expended to support drug interdiction and in view of Perstempo constraints, operators will have to shift to three to six month ship deployments vice the current practice of a four to six week commitment. This operational shift in philosophy allows for the



shift of drug interdiction allocated fuel to enhance fleet readiness. Similarly, the Howard Air Force Base could be used to support the U.S. military's air detection/interdiction of illegal drug trafficking.

Additional Op tempo and Per tempo savings could also be achieved by "piggybacking" other military commitments in Central America and the Caribbean, such as conducting port visits and supporting fleet/combined exercises. This shift in philosophy would require a mid-cycle deployment of an Atlantic Fleet tender to either Roosevelt Roads, R.R., Guantamo Bay Cuba, or Rodman to provide essential intermediate maintenance. The use of Rodman for fleet maintenance would create local businesses to support shipboard repairs stimulating the Panamanian economy.

In concert with the expanding counternarcotic effort of some of the Caribbean littoral nations, the use of the Rodman Naval Base and Howard Air Force Base would enhance the drug interdiction effort. For Panama, the continued U.S. presence at these bases would create jobs, stimulate small industry growth and enhance Panamanian counternarcotic efforts.

Finally, America's military presence would enhance regional stability. Central and South America will continue to be among the U.S. military's most demanding areas in the future. The Howard Air Force Base could serve as a staging/logistics area for U.S. military operations in Latin America. It could enhance U.S. military and Panamanian security force interoperability to support the Canal's defense. However, any U.S. military presence must be linked to a cooperative effort toward reversing Panama's economic decline, promoting regional stability, reducing arms proliferation and eliminating narcotic trafficking/production.

Until Panama and other regional struggling democracies are stabilized, narcotic trafficking is brought under control and Latin

America's economic decline is reversed, a U.S. southern military presence in Panama remains essential. The United States' Central and South American interests can best be maintained by a deployed U.S. Navy and forward base access. In view of the excellent facilities inherent in the U.S. bases in Panama and America's decreasing military budget, Washington must negotiate for the continued access to Panamanian bases into the next century. This forward presence will be mutually beneficial to both the United States and Panama and will provide necessary insurance for future regional stability.

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